MOODY'S
INVESTORS SERVICE

ISSUER IN-DEPTH
24 September 2018

Source Documents:

Preliminary OM (Sep/21/2018)

Peer Group:

» Retail

This report contains Moody's analysis of the principal protections and weaknesses of the covenant package of the Notes based on information contained in the Preliminary OM dated 21 September 2018.

Contacts

Cristina Cincilei +44.20.7772.5295
Associate Analyst
cristina.cincilei@moodys.com

Lisa Gundy +44.20.7772.1962
VP-Senior Covenant Officer
lisa.gundy@moodys.com

El Corte Ingles

Covenant Quality Pre-Sale Snapshot: €600m _% Senior Notes due 2024

Summary Analysis

Score: Weak (3.83)

El Corte Inglés, S.A.'s (the "Issuer") covenant package provides weak protection (3.83). Please see our special report for details on scoring criteria. To access our other special reports and comments, please click here.

Use of proceeds: for general corporate purposes, including to repay Existing Employees' Promissory Notes.

Covenant Quality Scores (Scoring Key At Report End)

	CQ Score	RPs	Investments	Debt	Liens	Structural	CoC
Bond scores	CQ4 (Weak)	Weak ↓	Weak	Weakest	Good	Weak	Weakest
Bond numerical scores	3.83	4.15	3.95	4.50	2.25	3.90	4.30
Peers: Retail	3.44	3.81	3.59	3.70	2.58	2.71	4.19
Full covenants EMEA avg. (LTM ended Jun 2018)	3.68	4.00	3.94	4.03	2.74	2.99	4.32
Full covenants EMEA avg. (2011-2018 H1)	3.29	3.39	3.66	3.50	2.67	2.89	3.74

Key Strengths/Weaknesses

Key Strengths	Key Weaknesses
1. Liens subordination: (i) potential quantifiable subordinating debt €504m = 0.4x adj. EBITDA	1. CoC: (i) only 2 of the 5 standard events present
2. Structural subordination: (i) strong future guarantee provision as extends to senior facilities and public debt; (ii) guarantors account for 88% of total assets	2. Risky investments: (i) sale and leasebacks only subject to the assets sale; (ii) designated non-cash consideration uses growth basket
	3. Cash leakage: (i) any RP if cons. net leverage ratio ≤ 3.25x (3.2x on issue date); (ii) no objective cap on value liquidated investments
	4. Leveraging: (i) 3.8x initial leverage and 13.7x potential leverage; (ii) uncapped very aggressive EBITDA add-backs including pro forma cost saving and synergies

Carve-Outs As % of Total Assets (Market Averages From HY Covenant Database)

Comps	EMEA Average: 2011 to 1H 2018	Peer Average	Notes	Comments
RP carve-outs	7%	8%	7%	€1.2bn. General carve-out uses hard currency cap
Investment carve-outs	6%	5%	3%	€500m. General carve-out uses EBITDA growth basket
Debt carve-outs	18%	13%	12%	€2.1bn. Credit facility cushion is €400m

Cash Leakage

Score: Weak ↓ (4.15)

RP income basket is predated by 6 months before the issue date which generate a maximum score of 2.00.

Any restricted payment ("RP") can be made if the cons. net leverage ratio ≤ 3.25x. With an initial ratio of 3.2x, the Issuer is able to satisfy the test on issue date. In addition, the Issuer can make restricted payments with the accumulating credit under the RP income basket and carve-outs.

» Restricted payments. All 4 standard RP categories (dividends, capital stock, subordinated debt, restricted investments) plus subordinated shareholder funding.

» RP income basket. 50% cons. net income ("CNI") basket, subject to no default and €1 debt test (standard). Start dates. RPs and additions: issue date; CNI basket: Mar/1/2018. Upfront credit: nil.

» Re-classification of RPs. Not expressly allowed.

» Non-cash asset valuation. Additions to RP income basket: liquidated investments are valued at sale proceeds. Unrestricted subsidiaries redesignated as restricted subsidiaries are valued at time redesignated. RPs: approval by board of directors if FMV > greater of 8.7% of EBITDA and €100m.

» Key quantifiable RP carve-outs: €1.2bn.
(1) Equity repurchases from employees: ≤ €100m per annum.
(2) General RPs ≤ €75m per annum.
Note: carve-out (1) does not reduce the RP income basket.

» Key non-quantifiable RP carve-outs.
(1) Any RP provided the cons. net leverage ratio (debt *less* cash/EBITDA) ≤ 3.25x.
(2) Payment of dividends on common stock of the Issuer or any parent in any fiscal year ≤ the greater of (a) 6% of the net cash proceeds received by or contributed to the Issuer, and (b) following the IPO (a) ≤ greater of 8% of market cap/IPO market cap, if the cons. net leverage ratio ≤ 3.5x.
(3) Any RP from excluded contributions.|
Notes: carve-out (3) does not reduce the RP income basket.

» Transactions with affiliates. Transactions ≤ €15m are carved out from arm's-length requirement. Transactions > €50m require approval by majority of disinterested directors. No requirement for 3rd party fairness opinion.

» Designation of unrestricted subsidiaries.
(1) Not all of the Issuer's subsidiaries will be restricted on the issue date. For May/31/2018 initial unrestricted subsidiaries generated 1% and 0.1% of revenue and EBITDA.
(2) Ring-fencing. Provides weak protection against credit deterioration / bankruptcy of unrestricted group: no non-recourse debt provision. Designation as unrestricted subsidiary requires compliance with RP covenant (thus some limitation on value escaping from restricted group).

Investment in Risky Assets

Score: Weak (3.95)

» Key permitted investment carve-outs: €500m.
(1) General permitted investments ≤ greater of €500m and 43.3 % of cons. EBITDA.

» Asset sale use of proceeds.
(1) Reinvestment criteria: (a) replacement assets: means non-current properties and assets that replace the properties and assets that were the subject of an asset disposition or non-current properties and assets that will be used in a restricted subsidiary's business as of the issue date; (b) capex; (c) acquire other assets (which are not capital stock or cash) that are used in a similar business.
(2) Repayment of Notes: repayment of any public debt requires offer to repurchase the Notes. Aggregate amount of excess process must exceed €100m before offer is made.
(3) Carve-outs: transactions, or series of transactions < €100m.

» Retention of asset sale proceeds. Debt retirement and reinvestment ≤ 540 days (360 days plus one 180 days extension; standard).

» Designated non-cash consideration: ≤ greater of €50m and 3.9% of cons. EBITDA.

» Sale/leasebacks. Subject to the asset sales, but not liens and debt covenants.

» Limitation on line of business covenant. Not present.

Leveraging

Score: Weakest (4.50)

Initial debt: €4.4bn, including €600m Notes, €675m existing employee promisory notes, €1.5bn TLB, €600m Hipercor unsecured notes and €411m Existing MARF Commercial Paper Program = 3.8x cons. EBITDA.

Total potential debt: €15.8bn = 13.7x cons. EBITDA.

Incremental debt: €11.4bn consisting of the following:

– €1 all-debt test cushion: €8.4bn; using estimated total finance cost of 4.5%. FCCR = 5.8x. cons. EBITDA would have to decrease by €756m (65%) for there to be no capacity under the €1 debt test.

– Total available quantifiable carve-outs: €2.1bn.

– €1,150m committed RCF. For scoring purposes, the RCF reduces the credit facility basket.

» €1 debt test. The Issuer and restricted subsidiaries can incur debt if the fixed charge coverage ratio (EBITDA/fixed charges; "FCCR") ≥ 2.0x.

» Financial ratio calculations.
(1) EBITDA add-backs. Very aggressive, as includes post acquisition run rate cost savings, including anticipated expense and cost reduction synergies determined in good faith by management (uncapped).
(2) Limited condition acquisition. Not present.
(3) Reserved debt. Not present.

» Key quantifiable debt carve-outs: €4.7bn.
(1) Credit facility debt ≤ €3.0bn.
(2) Management advances ≤ €80m.
(3) Debt capex ≤ €650m.
(4) General debt ≤ greater of €500m and 2.73% of total assets.
(5) Factoring ≤ greater of €100m and 8.7 % of EBITDA (not included in scoring; typically uncapped).
(6) Commercial paper program debt ≤ €500m.

» Key non-quantifiable debt carve-outs.
(1) Acquired debt by the Issuer or restricted subsidiaries (assumed in or incurred to effect acquisition) provided that the Issuer passes €1 debt test or have FCCR after transaction ≥ before.
(2) Debt of Issuer ≤ 100% net cash proceeds of shareholder loans or capital stock or capital contributions after the issue date (contribution debt).

» Debt re-classification. Can reclassify carve-outs at any time subject to €1 debt test; allowing the Issuer to maximize leverage under the €1 debt test. Syndicated loan facility debt is initially deemed incurred under the credit-facility carve-out and cannot be reclassified.

» Merger.
(1) Issuer. No default. Must pass €1 debt incurrence test or have the FCCR after ≥ FCCR before transaction. Requiring only €1 additional debt test is generally a better measure of debt-servicing capacity than allowing an issuer to meet, alternatively, a successor-predecessor test.
(2) Guarantors: no default. Successor entity assumes all guarantor obligations.

Liens Subordination

Score: Good (2.25)

Initial subordinating secured debt (pro forma): nil.

Potential secured debt: €504m = 0.4 x cons. EBITDA.

» Negative pledge. No liens on property or assets of Issuer or any restricted subsidiary unless (a) permitted liens or (b) equal and ratable.

» Subordinating (non-Collateral).
(1) Liens on assets of non-guarantors securing debt of non-guarantors.
(2) Debt financed capex, limited to specific financed assets.
(3) General permitted liens ≤ greater of €500m and 2.75% of total assets.

» Reclassification. Not present.

» Anti-layering provision. Present.

Structural Subordination

Score: Weak (3.90)

As of and for May/31/2018 the Guarantors accounted for 88% of net turnover, 84% of EBITDA and 88% of total assets.

As of May/31/2018, after giving effect to the transaction, the non-guarantor subsidiaries had €51m of debt.

» Guarantors. All subsidiaries that guarantee the syndicated loan facilities. Viajes El Corte Inglés, S.A. and Supercor, S.A.

» Future guarantors. Any restricted subsidiary that guarantees credit facility (including the RCF), public debt or material debt will guarantee the Notes.
"Material debt" means the syndicated loan facilities and any debt > the greater of 2% of total assets and €350m.

» Debt incurrence ratio test and carve-outs. Non-guarantor subsidiaries can incur debt under the €1 debt test and all carve-outs (uncapped).

» Refinance provision. Non-guarantor restricted subsidiaries can refinance the Issuer's or a guarantor's debt.

» Dividend stoppers. Not present.

Change of Control

Score: Weakest (4.30)

Only 2 of the 5 standard events. Put will not trigger in: a direct stock merger into a company that doesn't have a controlling shareholder, liquidation or change of management.

» Events.
(1) Any person or group becomes beneficial owner, directly or indirectly, of > 50% of voting power of the Issuer, except (a) when the Issuer becomes a subsidiary of the successor and (b) the voting power of the permitted holders is not included in the voting power of such person or group.
(2) Sale of all or substantially all assets to any person (excludes mergers).
Note: permitted holders carve-out applies to (1) and (2).

» Permitted holders.
(1) Fundación Ramon Areces,
(2) Marta Francisca´ Alvarez Guil,
(3) Cristina Consuela´ Alvarez Guil,
(4) any Person who is acting as an underwriter in connection with a public or private offering of capital stock of any Parent or the Issuer,
(5) any group of which any of the foregoing are members; provided that the group has beneficial ownership of more than 50% of the total voting power of the voting stock of the Issuer or any of its direct or indirect parent companies held by such group.

» Portability (change of control triggering event). Not present.

» Rating event. Not present.

Other Important Provisions Protecting Long-Term Value

» HY covenant termination. HY covenant terminated. HY covenants are terminated upon Notes' upgrade to IG by both rating agencies and no default. They are not reinstated upon downgrade/withdrawal to non-IG by either agency. Liens and change of control put remain in effect.

» Cross-default/ acceleration. Cross-principal default and cross-acceleration to any default of the Issuer or restricted subsidiaries ≥ €50m.

» Call option. 6NC2. NC prior to 2020 @ TBC; 2021 @ TBC; 2022 and thereafter @ TBD. Equity clawback: 40% prior to 2020 (provided 50% of original issuance outstanding) @ TBC. Special carve-out from makewhole: not present.

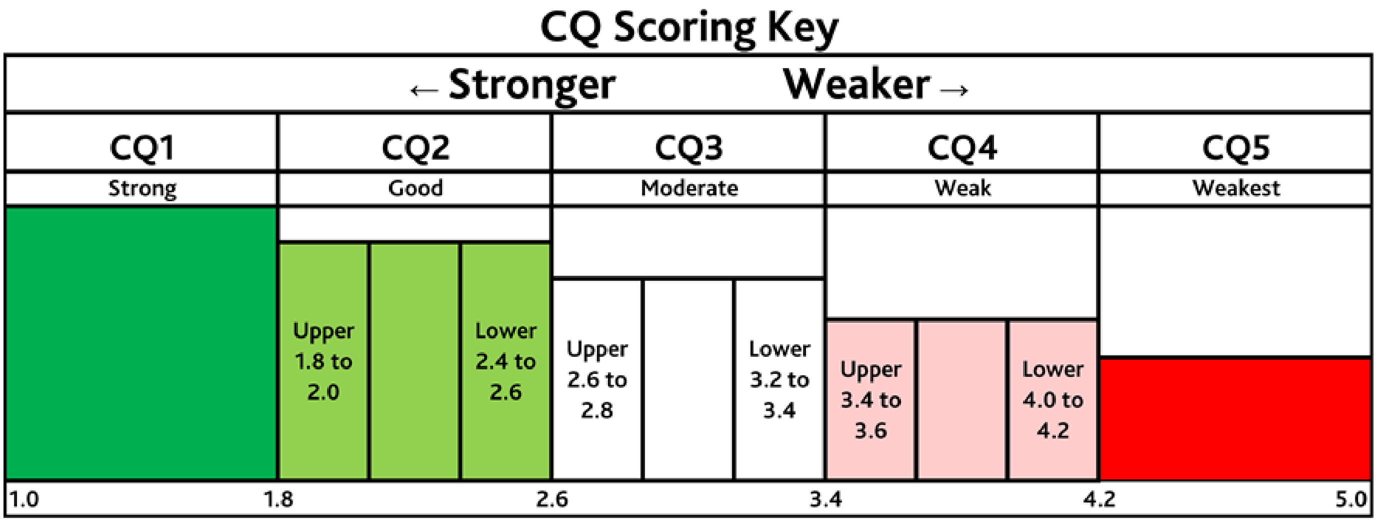
» Payments for consent. Not present.

» SEC registration rights. RegS/144A.

» Reports. Delivery of reporting is to maturity regardless of the Issuer's reporting status. Timely delivery is covenanted (120 days: annual reports/75 days: quarterly financial statements). Requirement to make financials available on a the Issuer's website.

» Listing. Irish stock exchange (GEM).

CQ Scoring Key



REPORT NUMBER 1142969

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454